

## How Alliance Partners Learn: The Role of Collaborative Experience and Market Orientation

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### Abstract

*Alliances are becoming more important in international business. The literature on learning and alliances has increased as the alliance literature has shifted to focusing on the role that learning plays in fostering alliance relationships. Congruent to this increase in the alliance learning literature has been the increase in the marketing literature on market orientation. However, limited research has been conducted on how collaborative experience influences a firm's market orientation; and the role that learning plays in facilitating this relationship. The aim of this paper is to examine the linkages between collaborative experience (in terms of the frequency, intensity, longevity and type of collaboration) and market orientation (in terms of information acquisition, information dissemination and behaviour responsiveness). The paper posits that the relationship is continual and can be analysed conceptually through feedback loops. Key directions for future research stemming from the conceptual framework are also examined.*

**Key words:** alliances, collaborative experience, market orientation

### Introduction

The literature on learning in firms has increased during the past decade. There is a plethora of literature devoted in many different disciplines to learning. This paper has an international business and marketing focus and investigates how these two bodies of literature help to explain the link between learning in alliances, collaborative experience and market orientation. There are numerous researchers who have examined the role of learning (e.g. Day, 1994; Sinkula, Baker and Noordewier, 1997; Tsang, 1999). Indeed, in the literature many researchers describe the learning organization without specifically describing the role that a firm's learning orientation will have on the desired learning that takes place within the individual firm context. There has also been an increase in the literature devoted to knowledge management and many researchers have stated that firms will learn more when they focus on learning (e.g. Bell, Whitwell and Lukas, 2002; Tsang, 1999). Indeed, Inkpen and Dinur (1998:458) state, "the strength of a firm's learning intent will help determine the organizational resources committed to learning". In this paper, the background to the research will first be discussed. This leads to a discussion of the literature pertinent for the development of the conceptual model. The conceptual model integrates the literature review by examining the relationship between collaborative experience and market orientation. Finally, directions for future research are discussed.

## **Background to Research**

The abundance of alliances existing in business means it is important for both academics and managerial practitioners to focus on how they can better achieve mutually beneficial learning outcomes. Many firms have alliances as they enable them to better perform in the marketplace. In the international context, alliances enable firms to come together from different countries and business climates. Many multinationals utilise international alliances to gain international knowledge which they could not get by themselves. As the business environment is becoming more international it is important that firms learn from experience how they can gain information from their international alliance partners. International alliances enable firms to learn more about financial institutions and government regulations which is invaluable particularly to those firms in knowledge intensive industries such as information technology which requires this information to stay competitive in the international marketplace.

In this paper, alliances refer to both domestic and international alliances. Alliances facilitate market orientation behaviours that enable greater facilitation between the alliance partners. Collaborative experience between alliance partners has been suggested by previous research to be the most important factor in alliance performance (Anand and Khanna, 2000). Indeed, firms such as Hewlett Packard have a strong market orientation because of their collaborative experience and focus on learning that has yielded strong performance outcomes (Kale and Singh, 1999). The purpose of this paper is to examine the role that collaborative experience and learning has in the context of alliances, and more specifically in terms of a firm's market orientation. Whilst much research has been conducted on market orientation, there is a gap in the literature about how market orientation is influenced by the collaborative experience of firms. Alliance managers can enter into alliances and continue with existing alliances on the basis of what they have had experience with in the past. This paper brings important insights into the learning that occurs in alliances when information is acquired through collaborative experience. The extent to which a firm has interacted in the past with alliance partners (in terms of longevity and types of collaboration) and the firm's market orientation (information acquisition, information dissemination and behaviour responsiveness) will be examined.

## **Literature Review**

Alliance learning theory provides a foundation to describe the processes involved in alliance-based learning which is a function both of its market orientation. In this paper, alliances include R&D or marketing partnerships, technology agreements, licensing, franchising and joint ventures. Hence, alliances are defined broadly as a cooperative agreement between two or more organizations. Learning is the focus on this paper so that alliances which are inherently knowledge focused are examined. Therefore, alliances are examined in the context of "learning that involves the acquisition or internalisation of some critical information, know-how, or capability possessed by the partner" (Kale, Singh and Perlmutter, 2000:220). Hence, this paper views learning in alliances as evolutionary as the knowledge is continually acquired and integrated into the alliance.

Learning in alliances has been examined by many researchers (e.g. Dodgson, 1993; Kumar and Nti, 1998; Simonin, 1997). Kogut (1988) was among the first researchers to identify alliances being motivated by learning. Other researchers have since followed through examining the role of alliance learning conceptually and empirically (e.g. Inkpen, 2000; Inkpen and Crossan, 1995; Simonin, 1999). Learning in alliances occurs through the sharing of knowledge differences in two or more organizations (Inkpen, 2000). In this paper, learning in alliances is defined as "the process of assimilating new knowledge into the organization's knowledge base" (Autio, Sapienza and Almeida, 2000:911).

Knowledge affects learning in alliances for a variety of reasons (Inkpen and Dinur, 1998) which have been identified by Lyles and Salk (1996) as how to manage alliances, the alliance partners themselves and organization synergy. Managing alliances is particularly important as there are many advantages and disadvantages of alliances that can result in differences from the alliance partner's organizational cultures. Hence, knowledge about how to manage alliances can help organizations learn from new alliance partners and existing alliance partners. Knowledge about the alliance partners is complex and can help alliance partners to learn new technologies and developments that are happening in the international arena. Knowledge about organization synergy largely results from differences in alliances partner's core international markets which can enable both alliance partners to improve their marketshare and international performance.

Knowledge in alliances results in learning when know-how and know-what is exchanged between the alliance partners. Tsang (1999:215) highlights that "the know-how of managing domestic and global strategic alliances has become an essential resource of most firms, and learning is the means to acquire and accumulate the resource". Hence, know-how of a firm is more of an intangible nature and includes the expertise of a firm (Kogut and Zander, 1992), whilst the know-what of a firm is more tangible and includes market knowledge (Bresman, Birkinshaw and Nobel, 1999). In this paper, knowledge incorporates both know-how and know-what and is defined as the capacity of a firm to use relationships to achieve their goal (Autio et al., 2000). Therefore, in this paper knowledge is distinct from learning as it includes the learning synergy from the alliance (Larsson, Bengtsson, Henriksson and Sparks, 1998).

The alliance literature identifies firm-specific and market-specific knowledge as being the two basic types of knowledge in an alliance (Berdrow and Lane, 2003). Firm-specific knowledge includes the know-how of a firm (Kogut and Zander, 1992). For example, knowledge that a firm has from past alliance experience. It also includes the know-what of a firm. For example, the knowledge a firm has about how a specific technology operates or how a technology is manufactured. Market-specific knowledge includes how a firm has operated in international markets (Berdrow and Lane, 2003). This market-specific knowledge is crucial in an alliance context for firms wanting to learn more about international market opportunities (Yli-Renko, Autio and Tontti, 2002).

### **Collaborative Experience**

Collaborative experience in this paper is defined as the types of collaboration a firm has had and the frequency, intensity and longevity of this collaboration (Simonin, 1997). The learning that occurs within an alliance will be a result of the individual alliance partners past alliance relationships. Researchers have found that the greater a firms collaborative experience, the more desirable they are as alliance partners (e.g. Gulati, 1995; Morgan and Hunt, 1994; Mitchell and Singh, 1996). Child and Yan (1999) and Simonin (1997) have stressed that the more experience alliance partners have had the more likely will be their alliance success. Other researchers such as Anand and Khanna (2000) have equated alliance experience will higher stock market returns and Zander and Kogut (1995) found technology experience to be an important determinant of a firm's learning capability.

The more a firm communicates with their alliance partner means that more information will flow through the firm. Important events and occurrences that happen in a firm will be communicated faster to firms that that see and talk to each other regularly. Information will also be communicated more when the intensity of the collaboration is high. For example, firms that are in a long-term joint venture will share information as it is directly relevant to all the partners

involved in the alliance. The intensity of the collaboration may also impact upon the behaviour responsiveness of the firm such as that a firm that is developing an important new product with another firm will need to change the way they develop the product if another firm develops a similar product. Hence, the collaborative experience of a firm impacts on the market processing behaviour of the firm. The link between collaborative experience and market orientation operates as a feedback loop in which the more a firm collaborates, the more information processing behaviours it will be involved in which will lead it to having more collaborative experience.

### **Market Orientation**

In this paper, market orientation involves information acquisition, information dissemination and behaviour responsiveness. In the literature on market orientation, there are two main perspectives existing; the cultural and behavioural perspective (Homburg and Pflesser, 2000). The cultural perspective examines characteristics of firms whilst the behavioural perspective relates to specific behaviours and is adopted in this paper. Thus, the definition of market orientation in this paper is “the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization wide responsiveness to it” (Kohli and Jaworski’s, 1990:6; also used by Jaworski and Kohli, 1993 and Pulendran, Speed and Widing, 2000).

Information acquisition involves “direct experience, the experience of others, or organizational memory” (Slater and Narver, 1995:64). The direct experience of an organization can be internally or externally focused (Slater and Narver, 1995). Internally focused experience, also known as exploitation (March, 1991) involves gaining knowledge from the way an organization operates. Externally focused experience, also known as exploration (March, 1991) involves the experience that individuals in an organization have gained outside the organization. For example, information gained through alliance contacts and international experience. Organizational memory involves knowledge that an organization has both explicitly in terms of company documents and inexplicitly through employee experience. Alliances enable firms to acquire information that is from both experience and memory as much knowledge is tacit meaning that it can only be exchanged through long term interaction between firms.

Information dissemination occurs when “when each piece of information can be seen its broader context by all organizational players” (Slater and Narver, 1995:65). Particularly with large firms it is important that knowledge flows through the organization. This can be facilitated when organization members are provided with feedback and insights to company events (Quinn, 1992). In an alliance context, dissemination enables the organization to capitalise on existing knowledge (Zahra et al., 2000) and also through internalising what it has learnt (Ahuja, 2000).

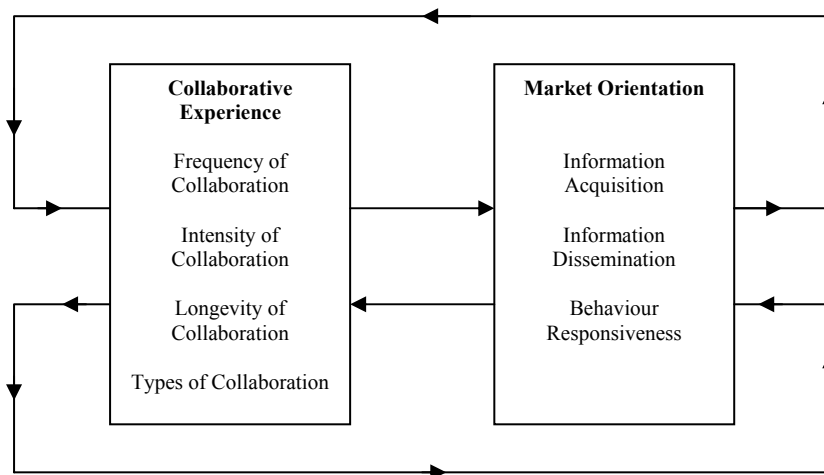
Behaviour responsiveness occurs when there is “a consensus in the meaning of the information and its implications for that business” (Slater and Narver, 1995:65). Unless knowledge is utilised, information will have no real benefits or value (Zahra et al., 2000:930). Organization members need to aware of the value and meaning of information so that the organization can learn from it (Day, 1994). Alliances provide an important interorganizational mode in which organizations can use information for their advantage. Many alliances are formed as a result of information being acquired and firms wanting to capitalise on the information. For example, many international alliances are a result of new market opportunities existing and firms needing local market-specific knowledge about the market conditions in the new market.

The information processing behaviours of firms influences the collaborative experience of firms involved in alliances. As a firm adapts and changes to new information it will be involved in

and exposed to different types of alliances. For example, a firm that acquires information from its alliance partner that a new product will be available in the marketplace may start producing complementary products to this new product. The development of these complementary products may mean that the firm needs to be involved in a technological collaboration with a firm that focuses solely on the product applications of the new product. Alliance partners that are flexible and are responsive to changes will be able to have longer alliance relationships. Hence, the relationship between a firm's market orientation and its collaborative experience is non-recursive in that they both influence one and feedback on one another.

### Conceptual Model

The way a firm in an alliance learns is largely a by-product of its collaborative experience and market orientation. A firm that has not had experience in collaborating with other firms will not be able to effectively manage the information that it does obtain internally. Hence, through collaborating firms learn what information they need to increase their market share and profitability which leads then to give more information to their alliance partners in the hope that they will obtain further information and knowledge that can then be used throughout their firm. Therefore, much of the information obtained through alliances can be disseminated when the relationship with the alliance partner is trustworthy and ongoing. An alliance that has been operating for a number of years means that firms involved in the alliance will be better able to respond to useful information once obtained. Alliance partners who communicate with one another regularly will be able to update each other which will lead to a greater flow of information existing between the alliance partners. Hence, the collaborative experience of a firm heavily influences the firm's market orientation and vice versa. The relationship between collaborative experience and market orientation is ongoing and constant and is facilitated by a feedback mechanism which is illustrated in the following conceptual model.



### Relationship between Collaborative Experience and Market Orientation

Both the dimensions of collaborative experience and market orientation impact each other. As alliance partners collaborate more, each firm will be able to acquire more information that will encourage the firms to collaborate more, whilst at the same time the more frequent meetings between the alliance partners will encourage more discussion of information. The information that is disseminated will lead to mutual sharing of information that is beneficial to both alliance partners when acted upon. The intensity of the collaboration between the alliance partners will

also impact the market orientation of individual firms. When there is high environmental uncertainty in the marketplace, frequent technology changes or new market developments, then the alliance partners can save time and money by collaborating for a specific purpose in which important information is exchanged between the alliance partners which then fosters more trust in the amount of information that is disseminated to the firms involved in the alliance. The collaboration will be more successful when it is intense and leads to performance outcomes such as the setting up of a joint venture. Firms that have collaborated for a long time will be able to acquire information that they need as they will have experience in gaining access to this information from their alliance partners. The greater a firm's experience in having successful outcomes like increased marketshare or entering a new international market with their alliance partner will then increase their ability of having an alliance with the firm and to enter into alliances with other firms. However, the types of collaboration that the firm will enter into will be larger determined by the information acquired about potential opportunities. For example, firms that have had collaboration in the form of R&D will be able to disseminate the key findings of their research which will lead to further collaboration but may be in a different form to the initial collaboration. There are many ways in which a firm can collaborate including licensing agreements and franchising, hence the flexible nature of alliances means that the type is dependent on the information that has been gathered in an individual firm. In summary, the relationship between collaborative experience and market orientation influences and impacts each other.

### **Suggestions for Future Research**

The process of learning in an alliance is complex and requires further attention. Indeed, the way in which firms learn and how their experience can help them do this is critical for the success of an alliance. However, much learning is tacit, thereby making it hard for alliance partners to explicitly transfer the knowledge acquired. The way in which firms transfer knowledge and learn in alliances is a new research area (Bresman et al., 1999; Inkpen, 2000) and this paper has further advanced the literature on this subject. This paper has highlighted managerial implications in that the capacity of a firm to learn from their alliance partners is a skill that can be developed and nurtured through managers placing an emphasis on the importance of learning.

This paper has proposed a conceptual model that describes the relationship between collaborative experience and market orientation. This paper has contributed to the literature on alliance learning by proposing a model that can help explain the process of alliance learning. It is suggested that future research examines these relationships empirically through a survey and that the results are analysed with structural equation modelling. Future research needs to identify in greater detail through both qualitative and quantitative research how a firm's collaborative experience and market orientation affects its alliance performance. For example, case study analysis can be used to identify the processes involved.

More research is also needed on the direction of the relationship between market orientation and collaborative experience. This can be in the form of large scale survey data to test the significance and direction of the relationship. Research is also needed on whether other variables impact upon the relationship. For example, the entrepreneurial orientation and the knowledge intensity of an alliance may impact upon the learning orientation and the market orientation of the alliance. This can be through examining whether it is a feedback process in which alliance partners gather information, disseminate it within the alliance then change their commitment to the alliance based on the knowledge gained. Also, the alliance partner's experience and/or size may significantly impact upon the willingness of individual alliance partners to learn from the alliance.

## Conclusion

This paper has discussed collaborative experience and market orientation within an alliance context. First, the literature on alliances was examined in the context of this paper. Next, the literature on collaborative experience and market orientation was stated and the relationships between the constructs as espoused by the conceptual model followed. Directions for future research were highlighted which showed the importance of more empirical and theoretical research to be conducted on how collaborative experience and market orientation are linked together in an alliance context.

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